

**SUMMARY OF THE REGULAR MEETING OF THE  
ARIZONA STATE RETIREMENT SYSTEM  
INVESTMENT COMMITTEE**

**HELD ON  
Wednesday, April 4, 2007  
5:30 p.m., MST**

The Investment Committee (IC) of the Arizona State Retirement System (ASRS) met at 3300 N. Central Avenue, 14th Floor Conference Room, Phoenix, Arizona 85012. Mr. Lawrence Trachtenberg, Chairperson of the IC, called the meeting to order at 5:31 p.m., MST.

The meeting was teleconferenced to the ASRS Tucson office, 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

**1. Call to Order; Roll Call; Opening Remarks**

Present: Mr. Lawrence Trachtenberg, Chair  
Mr. Christopher Harris  
Mr. James McLaughlin  
Mr. Thomas Connelly (arrived at 5:39 p.m.)

A quorum was present for the purpose of conducting business.

Mr. Gary R. Dokes, ASRS Chief Investment Officer, stated that there were some confidential procurement items relating to the ASRS Private Equity Consultant search, making it appropriate to move into executive session to discuss the topic in greater detail.

**Motion:** Mr. McLaughlin moved to adjourn to an executive session to discuss items relating to the ASRS Private Equity Consultant Search, which would not be open to the public.

Mr. Harris seconded the motion.

By a vote of 3 in favor, 0 opposed, 1 absent, and 0 abstentions, the motion was approved.

The Trustees convened to executive session at 5:34 p.m.

Mr. Thomas Connelly joined the executive session at 5:39 p.m.

The Trustees reconvened to the regular session at 6:06 p.m.

## **2. Presentation, Discussion, and Appropriate Action Regarding the ASRS Search for a Private Equity Consultant**

**Motion:** Mr. McLaughlin moved to recommend that the Board approve the recommendation of the ASRS Private Equity Search Committee regarding the selection of private equity consultants.

Mr. Connelly seconded the motion.

By a vote of 3 in favor, 0 opposed, and 1 abstention, the motion was approved. Mr. Harris noted that he abstained from participation in the discussion in the executive session, as well as from voting, to avoid any appearance of a potential conflict of interest.

## **3. Presentation and Discussion Regarding the ASRS Real Estate Program Strategic Plan**

Mr. Dokes introduced the topic. On May 19, 2006, the ASRS Board approved changes to the existing ASRS Real Estate Program Strategic Plan. Subsequent to this date, discussions between Townsend (the ASRS Real Estate Consultant) and the Real Estate (RE) Committee were held, which resulted in the recognition of the need to make additional modifications to the ASRS Real Estate Strategic Plan.

Mr. Eric A. Rovelli, Real Estate Portfolio Manager, outlined the proposed modifications to the ASRS Real Estate Strategic Plan, i.e., core and non-core investment allocation targets and associated total real estate program leverage limits. He stated that this change is primarily due to the real estate valuations which generally favors non-core over core real estate and are anticipated to positively contribute to ASRS's targeted 9% net of fee total real estate program return expectations.

Ms. Micolyn Yalonis, The Townsend Group, expanded on Mr. Rovelli's comments. She explained that Townsend looks annually at the ASRS program, at aspects such as cap rate and compression. She is very pleased with the progress in the past year. She also stated that the Real Estate Committee plans to discuss real estate investment trust (REIT) markets, domestic and global, at its next meeting.

Mr. Dokes stated that approximately 3.8% of ASRS assets have been committed to real estate investments. Mr. Rovelli said that though the ASRS staff conducts its own real estate manager due diligence, Townsend's role of performing real estate due diligence is crucial. Mr. Dokes said that the ASRS real estate legal counsel has done a fine job in identifying and assisting in negotiating real estate contract terms.

Mr. Connelly asked what the chain of command is regarding real estate investments. Mr. Dokes stated that the RE Committee is an ASRS management and staff committee and not a committee of the Board. The Real Estate Committee welcomes available and interested Investment Committee (IC) trustee(s) participation. As Chair of the Real Estate Committee, the CIO is

responsible for making recommendations and providing real estate program status reports to the IC.

**Motion:** Mr. Harris moved that the IC approve and recommend to the full Board, the Real Estate Strategic Plan as modified.

Mr. Connelly seconded the motion.

By a vote of 4 in favor, 0 opposed, and 0 abstentions, the motion was approved.

#### **4. Presentation and Discussion Regarding ASRS Investment Manager Enhanced Reporting**

Mr. Dokes introduced the topic. Given Mr. Dan Kapanak, Manager of Investment Strategies was unable to attend this meeting due to illness and that he was the primary author and architect, Mr. Dokes asked the trustees to review the new ASRS Investment Manager Evaluation Framework presentation and provide any comments to him during the next week.

Mr. Dokes asked Ms. Sarah Wadsworth, Portfolio Analyst, to discuss her Ex post Performance Analysis of Selected ASRS Terminated Managers. Between 12/31/2000 and 12/31/2006, the ASRS terminated fourteen active managers. Seven managers were terminated primarily for performance concerns; the balance were terminated primarily for organizational or investment process concerns. The objective was to evaluate these managers to determine performance subsequent to their termination. Though no firm conclusions were drawn from this analysis, anecdotally, five of the seven managers who were terminated primarily due to poor performance outperformed their benchmarks subsequent to termination. In addition, about half of the managers terminated primarily for organization or process concerns posted favorable performance subsequent to their termination.

Mr. Harris commented that this Analysis supports the assumptions in the white paper, "Persistence of Manager Performance," June 2006, prepared by Mr. Terry Dennison, Principal, Mercer Investment Consulting, Inc.

#### **5. Future IC Agenda Topics**

Mr. McLaughlin asked about revisiting the topic of changing the IC meetings to regular business hours. He noted that trustees have the flexibility to be able to attend Board and all other Committee meetings during the day. Mr. Matson and Mr. Trachtenberg noted that this time has historically worked well for the IC, since some people are not available to meet during the day.

#### **6. Call to the Public**

No members of the public requested to speak to the IC.

The meeting adjourned at 6:45 PM.

Respectfully submitted,

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Lisa Hanneman, Secretary                      Date

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Gary Dokes, Chief Investment Officer                      Date